

In the Matter of the Application)
regarding the Conversion and)
Acquisition of Control of Premera Blue)
Cross and its Affiliates.)
) No. G 02-45

PUBLIC HEARING
BEFORE INSURANCE COMMISSIONER KREIDLER
December 4, 2003
at
Red Lion Inn
607 East Yakima Avenue
Yakima, Washington

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P R O C E E D I N G S

(6:08 p.m., December 4, 2003)

COMMISSIONER KREIDLER: First, I want to welcome you this evening. I'm Insurance Commissioner Mike Kreidler, and I wanted to thank you for attending this hearing on the matter relating to Premera's conversion from a nonprofit to a for-profit company. This is OIC Case No. G 02-45. The purpose of this hearing is to take testimony from the public regarding Premera's conversion from a for-profit -- to a for-profit insurance company.

At this time I would like to introduce the parties that are present.

Boy, that's getting a little feedback. Let me -- does that work better? Seems like it's not feeding back quite so much.

Let me introduce the parties.

I'm not exactly sure -- I might do it without. We're going to do a power change here. One second.

(Pause in proceedings to adjust
audio system.)

COMMISSIONER KREIDLER: Let me introduce the parties sitting over here to my right. We have John Domeika and attorney Tom Wolfendale from Premera. Sitting next to

1 them in the middle we have Mr. Jim Odiorne, who is Deputy
2 Commissioner for Company Supervision for the Office of the
3 Insurance Commissioner. And representing the intervenors at
4 the far table we have Taya Briley.

5 Also, I should point out that we have here this evening
6 sitting to my left is Assistant Attorney General Christina
7 Beusch, who is my council, and court reporter Sue Garcia over
8 here to my far left. And we also have here Stephanie Marquis
9 and Scott Schoengarth, who are from my staff in Olympia.

10 In September of 2002 Premera made its initial filing,
11 called a Form A filing, asking for approval to convert from a
12 nonprofit insurance company business to a for-profit company.

13 If the current conversion is approved, the for-profit
14 company would ultimately be owned by the stockholders and
15 would be publicly traded. The for-profit -- excuse me. As a
16 part of the proposed transaction, the value of Premera would
17 be made available to a foundation or similar organization to
18 fund health needs of the public.

19 While there are many laws that apply to this
20 transaction, the primary law is the Holding Company Act,
21 RCW 48.31B and C, which applies to health services
22 contractors such as Premera Blue Cross.

23 In early 2001, I asked the legislature for clear
24 authority to review this kind of transaction, and the
25 legislation was adopted that year. Without this important

1 law, which is critical for a proceeding like this, a change
2 in Premera's operation such as a conversion may not have been
3 subject to the kind of review and scrutiny that we are
4 presently engaged. I will use the procedures and criteria
5 laid out in the Holding Company Act to review and ultimately
6 render a decision on Premera's proposal.

7 Although more than a year has passed since Premera's
8 initial filing, there has been a considerable amount of
9 activity and progress made. We've held four public hearings
10 in the fall of 2002 to hear the concerns of the public.
11 Premera has supplemented additional documentation since its
12 initial Form A filing.

13 The staff of the Office of the Insurance Commissioner,
14 with the assistance of outside experts, has reviewed
15 literally tens of thousands of documents related to Premera's
16 business and proposed conversion. Washington State Medical
17 Association, Washington Hospital Association, Premera Watch
18 Coalition, and others were granted third-party intervenor
19 status by me, and they've been very active in taking part in
20 the proceedings since its inception.

21 The parties have submitted expert reports, which are
22 available to the public. If you go to our website at
23 www.insurance.wa.gov, you will be able to access all of those
24 thousands of documents and pages of documents that are
25 available currently.

1 There are some limited copies of the executive summaries
2 of these reports that are available here tonight for anybody
3 who would like to take a look at the executive summaries. We
4 didn't have enough capacity on the airplane to bring over all
5 of the filings at one time. There are -- there are 17
6 different reports from a variety of experts ranging from
7 accountants, tax consultants, investment bankers, lawyers,
8 and health-policy consultants. The OIC website contains all
9 of these documents that have been filed by the parties and
10 the 20 orders that I have issued to date.

11 All of this activity and sharing of information is
12 general -- has generated a considerable amount of attention
13 in the media, particularly newspapers. And contrary to some
14 of these reports, this case is still in the information-
15 gathering stage. I have not received recommendations from my
16 staff, and won't be making any decision until the appropriate
17 time.

18 In the meantime, my review of Premera's proposal is
19 being conducted as part of an adjudicative hearing in
20 accordance to the state's Administrative Procedures Act.
21 This means that the procedures are somewhat like a trial.
22 But let me assure you, they are much less formal. I serve as
23 judge in this matter and will make a decision after the
24 evidence has been submitted.

25 Now, there are -- the parties that I introduced to you

1 earlier -- and I should point out one feature here when we
2 talk about the OIC staff. They're walled off from me legally
3 within the Office of the Insurance Commissioner. So the
4 Office of the Insurance Commissioner staff are effectively
5 function independently in making a recommendation to me and
6 are listed then as one of the parties, as are the intervenors
7 and Premera, as the applying organization.

8 Beginning on January 15th of 2004, we start the formal
9 hearing that will be held in Tacoma, at which time the
10 parties will offer their evidence through documents and
11 testimony. This hearing may last a long time, maybe up to
12 two weeks. And if you have an interest in knowing the times
13 and location and other facts associated with that formal
14 hearing on January 15th, a month from now, you can go to
15 our website and obtain all of the information that's
16 necessary.

17 In addition, I'm reaching out to the public, as I am
18 this evening, and holding four testimony hearings. We did
19 some preliminary ones a year ago, and now we're back with the
20 information being available to the public. And I'm doing
21 these four meetings around the state. Held one the night
22 before last in Spokane, this one here in Yakima, and next
23 week we'll be at Seatac, and the following week we'll be at
24 Bellingham.

25 Tonight is clearly your opportunity to testify and offer

1 information as evidence for me to consider in deciding
2 whether to approve or disapprove Premera's application to
3 convert.

4 Because the testimony being taken tonight will be
5 evidence in the adjudicative hearing, everyone who testifies
6 must do so under oath. Therefore, prior to taking testimony,
7 I will ask everyone who intends or might want to testify to
8 raise their hand and be sworn.

9 I would like to really encourage you that, please, don't
10 look at this as some -- more than just a formality of what we
11 need to do in the process. I am very much interested in
12 hearing people's -- giving latitude to express their
13 opinions, and they shouldn't be in the least bit intimidated
14 by the information that they need to supply at this time.
15 Don't worry about fine points of law.

16 Don't worry about having to justify with facts and data
17 the particular points you're making. You're free to offer
18 your opinions. I shall consider your testimony at the time I
19 render a decision, and your testimony will be a
20 recommendation to me.

21 Because this is part of an adjudicative hearing, the
22 parties or their attorneys could ask questions about the
23 testimony, either as follow-up or to elicit additional facts.
24 But as I did the night before last, I would again ask them to
25 show some serious restraint since they will have ample

1 opportunity to present their case at the adjudicative hearing
2 next month. But if they do, make sure they just wave and get
3 my attention if they want to do it so that they do have that
4 opportunity if they so desire.

5 All of the testimony and remarks being made here today
6 are being recorded by our very able court reporter, Sue
7 Garcia, to my left. The transcript of this hearing will be
8 part of the record of this case, and it will be posted on the
9 OIC website as soon as it becomes available.

10 Again, though, let me go to great pains to make sure
11 that you feel comfortable that this, even though it's part of
12 a formal process, this is a very informal opportunity for you
13 offer your opinions and thoughts about the issues that are
14 involved, and it clearly is your opportunity to do so.

15 Once everyone is sworn in, I'm going to -- it might not
16 be really required since we don't have that many names here
17 this evening, but I will -- I will call up one person. And
18 then I will -- while I'm calling -- that person's taking
19 their seat, I will inform the next person who would be in
20 line to testify. So if you'd be ready to come up and offer
21 your comments, that would be great.

22 Once we've gone through the process of everyone who
23 signed up and if there are other individuals who would like
24 to testify, I would ask you to step out and speak to
25 Stephanie or Scott so you could sign in. And when you come

1 forward to the table, if you haven't been sworn in, I will
2 swear you in at that time so that you can offer your comments
3 when you do come up.

4 Because -- this evening it doesn't appear that we're
5 going to have a lot of people, but I would always ask that if
6 you could be as succinct and direct as possible, that it
7 would certainly help facilitate the time so that we make sure
8 that we have ample time for everybody. But again, I don't
9 suspect that will be a major problem.

10 Let's move to the swearing in. I would ask everybody
11 who would -- who plans to testify or might like to testify to
12 raise their right-hand at this time.

13
14 CARLOS OLIVARES, HARRY GELLER,
JON SMILEY, VICTOR KOSKI,
15 MARVIN NELSON, JOHN ADKISON, M.D.,
JOHN VORNBROCK, KENNETH ISAACS, M.D.,
16 HAMILTON LICHT, M.D., SHAUN KOOS,
LARRY DUREN,

17
having been first duly
18 sworn testified as follows:

19
20 COMMISSIONER KREIDLER: Thank you. Well, I think
21 we're now ready to call up first names on the list, and I
22 would like to ask Carlos Olivares if he would come up. And
23 following Carlos I'd -- we're going to call on Harry Geller.

24 MR. GELLER: Geller.

25 COMMISSIONER KREIDLER: Geller. Must be a doctor.

1 Carlos, please.

2 MR. OLIVARES: Thank you very much. My name is
3 Carlos Olivares. I am the executive director of the Yakima
4 Valley Farm Workers Clinic, a nonprofit organization. This
5 is an organization serving over 100,000 people in the state
6 of Washington and Oregon in 28 primary care clinics
7 throughout the state. I am here representing the Yakima
8 Valley Farm Workers Clinic. And I do not speak nor do I
9 represent any other organization or association that Yakima
10 Valley Farm Workers Clinics belong to.

11 I wanted to take this opportunity to look at this issue
12 maybe from a little different perspective than most of the
13 testimony that you have heard so far, I believe, and also
14 that you may hear in the future. I want to look at this from
15 the perspective of what happens with this type of a
16 conversion, with these type of issues, when it's associated
17 with underserved but primarily migrant and seasonal farm
18 worker communities and what I believe the potential impact
19 could be on this.

20 So I have tried to do as best as I can to try to inform
21 myself and read as much as I can when it comes to the issues
22 associated with this conversion. In no way, shape, or form I
23 want to appear to be an expert, nor do I want to appear to be
24 fully informed of all of the matters associated with this
25 conversion. However, I do want to express some opinions

1 based on the research and information that I have read. So I
2 prepared some of this in writing, and as I move through this,
3 I will try to make additional comments as I go along.

4 I would like to thank you for giving us the opportunity
5 to present our views, concerns, and suggestions over the
6 proposed conversion. Once I heard of the possibility of
7 Premera converting from a nonprofit organization to a
8 for-profit organization, I was not clear what that meant for
9 our organization and our patients.

10 Immediately I attempted to become informed of the
11 significance of this proposal, and most important, try to
12 understand the implications it can have in the care we
13 provide to our clients. For that purpose I attended the
14 Wenatchee public hearing that was held and sponsored by the
15 Premera Group. I also reviewed the documents that was
16 released April 2003 by the Community Catalyst, Inc.,
17 sponsored by the Kellogg Foundation.

18 I reviewed the information, and spoke to the Premera
19 Watch Coalition, met with two of the Premera officials, and
20 also reviewed materials and information associated with
21 similar conversions across the country, such as the Empire
22 conversion in New York and the California conversion, which
23 created the California Endowment.

24 I also spoke to a variety of community migrant health
25 centers in California who have worked closely with the

1 California Endowment, and spoke to and read information and
2 materials that have been published by the California Primary
3 Care Association in reference to the conversion of that
4 state -- that that state created, the California Endowment.

5 After my attempts to become as informed as possible on
6 this matter, I have come to the following conclusions
7 associated with this proposed conversion: First, a
8 conversion of this nature can indeed be very beneficial to
9 our patients and potentially to the state as it relates to
10 the underserved and the uninsured. I say this on the basis
11 that Premera as a nonprofit organization, from my
12 perspective, has very little impact on the care we provide to
13 our patients, or better yet, has absolutely no relevance to
14 the care we provide to the uninsured migrant and seasonal
15 farm workers in our communities.

16 For that respect, I believe that this conversion can
17 give us opportunities to assist those families in the future
18 that I do not see coming from any other place in the state
19 programs or, for that matter, in the private sector.

20 Given the current structure that I have, looking at in
21 terms of the budget, the problems, the deficits, the Basic
22 Health plan loss of potential enrollees, the restrictions on
23 the Medicaid programs, the potential premiums that are going
24 to be imposed to patients that can't afford to pay them, I
25 can't see in any way, shape, or form that Premera staying a

1 nonprofit organization will affect or change that for my
2 patients on a day-to-day basis.

3 I base that conclusion upon what I have witnessed
4 firsthand in California when a foundation was created to
5 successfully expand healthcare to the low-income and migrant
6 and seasonal farm workers. Opportunities such as the
7 commitment of \$50 million to better the healthcare status of
8 the farm worker population, to provide the farm worker health
9 initiative that would address fundamental problems associated
10 with that population, this response was in part due to a
11 study conducted in that state that pointed to the tremendous
12 gaps in healthcare for this population.

13 None of these studies have been conducted before prior
14 to the creation of the endowment. Migrant workers in
15 California, since the inception, for example, of the union
16 and the cry out that Caesar Chavez put out there, have never
17 had any opportunity to have any money associated with the
18 development and the studies of the healthcare status of this
19 population. The California Endowment has committed
20 \$50 million to do that. I can't imagine how that could be
21 bad for my patients.

22 I also -- I had also the opportunity to discuss the
23 opportunities of the funding that community migrant health
24 centers have been able to obtain through that endowment. To
25 this date I was told that over \$100 million had been put in

1 in the healthcare associated with migrant and seasonal farm
2 workers in that state through that endowment. I ask where in
3 the world am I going to get \$100 million in the State of
4 Washington to do that that is targeted to the population that
5 I serve today?

6 This contribution has given the safety net providers in
7 that state the opportunity to provide services to a
8 vulnerable population that otherwise would not be possible
9 consideration the tremendous economic hardship that exists in
10 that state.

11 Second, I have also been interested in the proposed
12 structure with which Premera would convert. And the
13 advantages and disadvantages are far too complex for me to
14 understand and analyze. However, there were a variety of
15 issues that called my attention that I felt needed to be
16 addressed, if not challenged altogether.

17 I am tremendously concerned in the way in which Premera
18 is proposed to structure the foundation. For example, I was
19 disappointed to hear that the proposed foundation could be
20 used to lobby on behalf the for-profit organizations.
21 Although I do realize that the documents indicate that no
22 monies from the proceeds of the sale of the stock could be
23 used for that purpose, the other element of the structure of
24 the foundation is that there is no clarity as to how and who
25 gets appointed to the initial board of the foundation.

1 And although I understand every time they sell stock
2 they have 30 days to distribute the proceeds to the two
3 charitable organizations, it took me a great deal of time and
4 energy to find just that piece of information. It is here.
5 It is in the filings. When I spoke to the folks that are
6 associated with the Coalition, they indicated something
7 completely different.

8 So I am concerned about what's here, what's been said,
9 and what is being presented to the public through different
10 ways. So I did my homework, and I read it myself. This in
11 my opinion represents a significant problem, meaning the way
12 in which the foundation is going to be structured.

13 I am also concerned about the entire evaluation of the
14 stock. As I understand it, if the proposed evaluation and
15 sale of the stock is implemented as described, as described
16 the sale of the stock will occur gradually, thus realizing
17 its full value. I was also told differently. If not, we
18 would not realize full benefit of the value of that stock if
19 the board of the foundation is not allowed to sell that stock
20 gradually over a period of time. So as I understand it, if
21 the way in which they have filed is followed through, then
22 the full value of that stock could indeed be realized over a
23 period of six years, at least the way I understand what's in
24 here.

25 I look at the experience in California, and I can't help

1 but to assume that the initial low assessment of the
2 California conversion ended up in a significant higher value.
3 It is my hope that the State of Washington can have a fair
4 and equitable evaluation that can fully demonstrate the
5 actual value of this conversion. Without this, I believe
6 that the conversion will not benefit the state of -- the
7 state's population.

8 Third, I recognize that I have somewhat limited
9 understanding of the impact that this conversion would have
10 on the overall current insurance market. I do not have to
11 this date the benefit of having read the report commissioned
12 by the Insurance Commissioner by the Insurance Commissioner's
13 Office. However, it seems to me that an organization like
14 Premera is going to want to be competitive in the market;
15 therefore, every other market force will push them to be
16 competitive and not increase their premiums beyond what the
17 market can bear.

18 In that respect, the arguments that I have heard from
19 the Premera Watch Coalition are not clear to me. The notion
20 that the an increase in premiums would leave hundreds of
21 thousands of people uninsured is again somewhat illusive
22 since I truly believe that the market will take care of those
23 fluctuations.

24 I do understand the possibility of a reduction in
25 payment to providers and hospitals as the demand for

1 profitability exists as part of the stakeholders. But here
2 again, I do think that providers do have the ability to
3 either contract or not with an entity that reduces its
4 payments so low that they are below the market rate. I do
5 recognize that in small rural communities where Premera may
6 be the only option that would represent a significant
7 problem, and I believe that that is an issue that would need
8 to be addressed in terms of how the conversion will occur.

9 After analyzing and thinking about this issue
10 extensively, I have come to the conclusion that a conversion
11 of the Premera system can be beneficial to the communities.
12 However, I would I believe that there would have to be
13 modifications to the proposed application that Premera has
14 submitted in order for this proposition to be acceptable and
15 beneficial to the citizens of the State of Washington.

16 I also believe that when I look at the population that I
17 am mostly interested in, I would like to have some additions
18 in some issues associated as to how those resources will be
19 used and where would they be allocated, if that is possible,
20 within the structure of the conversion.

21 That's all I have to say. Thank you.

22 COMMISSIONER KREIDLER: Thank you very much,
23 Carlos.

24 Mr. Geller, as you come up -- and I'm being talked to on
25 my left or right here. Just some more -- let me just in

1 somewhat of -- point out 'cause Carlos raised the questions
2 as to the -- if Premera has its application approved for
3 conversion, that would be the only time, of course, that
4 there would be a foundation.

5 And there is an area where we kind of start out with the
6 Form A filing that we're talking about here right now with
7 their application before the Insurance Commissioner's Office,
8 and then it moves over to -- if it were to be granted, then
9 there's the foundation and how its used and for what
10 purposes. That becomes much more clearly the Attorney
11 General's prerogative over in this area.

12 And so we've continued to work closely with the Attorney
13 General for those areas that are kind of, so to speak, in
14 between. They're kind of gray. That we kind of share as a
15 part of what's happening in the process. I'm not personally,
16 but it's part of the staff because it would be part of the
17 recommendation that would eventually come to me. But there
18 would be an opportunity, if the application were approved,
19 that the Attorney General would take a very active role in
20 how the foundation was set up and governed and how the
21 representation was established.

22 Mr. Geller, please. Mr. Geller, if I might be -- let me
23 just point out that -- it looks like, I'm going to say, Jon
24 Smiley; is that correct? Good. And you'll be next up.

25 Mr. Geller.

1 MR. GELLER: Good evening. My name is Harold
2 Geller, administrator of Othello Community Hospital located
3 in Adams County. Like to thank you for this opportunity to
4 testify with respect to the Premera conversion effort. In
5 addition to our facility, we'll be offering cements this
6 evening on Columbia Basin Council comprised of small rural
7 hospitals in Moses Lake, Ephrata, Odessa, Dayton, Grand
8 Cooley, Quincy, and Ritzville.

9 Othello Community Hospital is a 49-bed licensed primary
10 acute-care critical-access hospital with a service area
11 approximating 18,000 residents. In terms of volume within
12 the Columbia Basin our facility is the second busiest next to
13 Samaritan Healthcare in Moses Lake.

14 After Medicare and Medicaid, Premera is our largest
15 commercial payer. I believe this is the case with most
16 hospitals in the Columbia Basin, with Premera comprising
17 between 10 to 25 percent of hospital volume. Discounts are
18 typically in the 20-percent range.

19 Premera insures two of the five largest employers in
20 Othello, including our hospital. In at least three other
21 Columbia Basin communities, Premera is the major insurer of
22 businesses, including five of eight hospitals in the Columbia
23 Basin. Our hospital and those throughout the Columbia Basin
24 Hospital Council are opposed to the conversion.

25 While nonprofit and for-profit organizations alike must

1 generate sufficient profit to maintain ongoing operations, a
2 key difference exists with respect to use of that profit.
3 The nonprofit community-based entities, 100 percent of profit
4 is reinvested in that entity and the community that's being
5 served.

6 In for-profit companies, not only must sufficient profit
7 be reinvested in the firm, but profit above and beyond what
8 is necessary for ongoing operations must be generated to
9 satisfy the needs of stockholders.

10 Nonprofit organizations focus on the long-term.
11 For-profit firms are biased for the short term due to
12 quarterly review by Wall Street.

13 We are concerned that a for-profit Premera will face
14 pressure to become more profitable. Where will the
15 incremental profit come from? Reduced payments to providers?
16 Increased costs to employers for insurance coverage? Or
17 elimination of less profitable lines of business in rural
18 areas?

19 Reduced payment to providers and increased premiums,
20 since most Columbia Basin hospitals are also Premera
21 subscribers, will compound the already fragile financial
22 situation faced by most Columbia Basin hospitals. For the
23 reporting period ending June 30, 2002, Columbia Basin
24 hospitals incurred a combined 3.7 percent operating loss.
25 For the recent period ending June 30, 2003, Columbia Basin

1 hospitals squeaked by with a meager one-tenth of 1 percent
2 operating profit.

3 Industry standards recommend that hospitals general 4-
4 to 5-percent operating margins, and 5- to 6-percent total
5 margins in order to remain financially viable. Any
6 additional stress as a result of decreased reimbursement or
7 increased premiums may represent the final straw for some of
8 our hospitals.

9 Elimination of less profitable lines of business,
10 increases in the cost of health insurance coverage, or
11 reduction of benefits may lead to more people going without
12 health insurance and corresponding reduced access to
13 healthcare. In both Adams and Grant Counties, Premera will
14 no longer offer coverage through the PEBB. Government
15 employees in these two counties will only have access to two
16 plans through the PEBB, Uniform Medical and CHPW.

17 When people lose coverage for whatever reason, they
18 often delay care until they are acutely ill and in need of
19 expensive hospitalization or they end up being seen in
20 hospital emergency rooms. Newly uninsured resulting from
21 recent reductions in state insurance programs are already
22 straining hospital finances.

23 At Othello Community Hospital we witnessed a 68-percent
24 increase in bad debts and charity care, most of which is
25 associated with the increased emergency room utilization.

1 For the one-month period in November of 2002 we only wrote
2 off \$125,000. Last month we wrote off \$210,000 in bad debts
3 and charity care for a single month. We fully expect to
4 write off in excess of \$2.4 million in the next 12 months,
5 certainly a staggering sum for a small rural hospital.
6 Hospitals such as ours simply cannot absorb any more
7 financial jolts to the system.

8 OIC experts report that for 2001 Premera's share of the
9 insured market exceeded 80 percent in eight Eastern
10 Washington counties and averaged nearly 70 percent overall,
11 significantly higher than its penetration in western
12 Washington, where it exceeded 60 percent in only one county
13 and averaged 30 percent overall. Hence, Eastern Washington
14 may be hardest hit should Premera succeed in its conversion
15 attempt.

16 Furthermore, we're equally concerned that other
17 insurance carriers may follow suit in seeking conversion to
18 for-profit status should Premera's request be approved. We
19 concur with the findings of the OIC experts that Premera may
20 utilize its market power to increase premiums, decrease
21 reimbursement, and/or eliminate unprofitable lines of
22 business. If other carriers follow Premera's lead, then one
23 is left to speculate as to the future level of accessibility
24 and availability of care in rural Washington.

25 In closing, we would urge the Commissioner to reject

1 Premera's request. And I thank you for your time and
2 attention.

3 COMMISSIONER KREIDLER: Thank you, Mr. Geller.

4 And Jon Smiley. And following John Smiley, let's have
5 Victor Koski.

6 MR. SMILEY: Good evening, I'm Jon Smiley, CEO of
7 Sunnyside Community Hospital, a nonprofit hospital located in
8 Sunnyside, Washington, that services a population that is
9 primarily dependent on Medicare, Medicaid, and to some extent
10 commercial insurance. Sunnyside Community Hospital provides
11 a range of acute-care services that is commonly found in
12 rural hospitals.

13 Sunnyside's population base is approximately 40,000
14 people of cultural diversity. Sunnyside proper is 75 percent
15 Latino, representing a large agriculture population. The
16 hospital has only 25 percent of its total reimbursement
17 coming from insured patients. The balance of the
18 reimbursement comes from Medicare, Medicaid, private pay, and
19 charity.

20 Of the 25-percent insured population, 37 percent is
21 derived from Premera. We are also served by a number of
22 other small group insurers; however, our insured base is very
23 small. 80 percent of our inpatient care is covered by
24 Medicare and Medicaid, leaving a small portion that is
25 covered by commercial insurance, of which, as I can always

1 state, Premera is the largest provider.

2 Premera covers approximately 50 percent of commercially
3 insured lives in Yakima County. However, these lives tend to
4 be concentrated in Yakima -- the Yakima area proper and not
5 found in that high of a concentration elsewhere in the
6 region. There are relatively few group commercial carriers
7 in our region; however, we would like to see several more.
8 Sunnyside Community Hospital insures its employees with
9 Premera.

10 Sunnyside Community Hospital payments to Blue Cross --
11 excuse me. That dates me -- to Premera in 2002 was less than
12 \$1 million, which following payroll is one of our largest
13 single expenses, to provide medical care to the citizens of
14 the lower Yakima Valley.

15 I also represent the South Central Washington Hospital
16 council covering an area from Yakima to Prosser and
17 Goldendale. This is a rural area in nature, with the
18 exception of Yakima proper, and is agriculturally oriented,
19 which in itself leads to a lower insured population. The
20 services that are provided by the hospitals included in the
21 council range from basic acute-care service to open heart,
22 neurosurgery, and other sophisticated medical or surgical
23 modalities found in Yakima.

24 As I said earlier, Premera is the largest player in our
25 hospitals' health. As indicated, Premera represents

1 50 percent of all insured population in the region. There
2 are very few options for other coverage. Employers have
3 First Choice, Blue Shield, and Group Health to some extent to
4 cover their employees with. In a recent survey there was
5 only one hospital, that being Sunnyside Community Hospital,
6 to the best of my knowledge, that insures its employees with
7 Premera.

8 The margins of the hospitals on the hospital council are
9 varying from slightly positive to negative. The hospitals in
10 the area had an aggregate margin in the year 2002 of
11 approximately 1 percent. I have had approximately 40 years'
12 experience with Blue Cross Premera and have dealt with the
13 organization from the standpoint of representing a employer
14 to being on the board and covered by Blue Cross as an
15 employee throughout these 40 years. Blue Cross's history is
16 that of service to community, providers, and patients.

17 It is concerning to me that there is even a
18 consideration of converting Premera, which has been a leader
19 in providing patient and provider services, to a for-profit
20 corporation. I'm very well aware of the necessity of
21 for-profit corporations; however, healthcare is one of those
22 that should not be looked upon as one that needs to return a
23 margin to its stockholders.

24 I'm concerned in the last year that Premera spent
25 \$5.6 million in legal fees to further the for-profit

1 conversion. Speaking on behalf of Sunnyside Community
2 Hospital, had Premera raised its rates an additional
3 6.5 percent in 2002, it would have wiped out or total bottom
4 line.

5 The margins at hospitals such as Sunnyside, which is
6 converting to a critical-access hospital, and two other
7 hospitals within the council that have already converted to
8 critical-access, are extremely dependent upon having Premera
9 as a provider-patient-focused insurance carrier.

10 I'm very concerned about the market share and market
11 dominance that Premera would have becoming a for-profit. I
12 can really see that there would be a increase of premiums
13 that would no doubt occur. The decrease in provider
14 reimbursement without a doubt changes -- will make it even
15 more difficult to recruit positions to areas such as Yakima
16 County.

17 Sunnyside Community Hospital and other hospitals within
18 the council have had a very difficult time recruiting
19 physicians as the level of reimbursement for physicians is so
20 low given the concentration of Medicare and Medicaid
21 patients. With declining Premera reimbursement, it would
22 make it even more difficult to recruit and maintain
23 physicians in the region.

24 I would ask that the Office of the Insurance
25 Commissioner very carefully consider and not allow the

1 conversion of Premera to a for-profit corporation. I want to
2 thank you for the opportunity of being heard this evening and
3 having an opportunity to express some views. And I would
4 just like to say -- like a former first lady, I would like to
5 urge the Office of the Insurance Commissioner just to say no.
6 Thank you very much.

7 COMMISSIONER KREIDLER: Thank you, Mr. Smiley.

8 Let me tell you one of the reasons we've wound up
9 holding these hearings over in Eastern Washington. 50
10 percent of the hearings in the state will be held in Eastern
11 Washington is because it is with clear understanding that the
12 presence of Premera in Eastern Washington is a much more
13 dominant presence than you see on the west side; therefore,
14 it more than justifies making sure that we adequately listen
15 to people's concerns in Eastern Washington.

16 So I thank you for your testimony.

17 MR. SMILEY: Thank you very much.

18 COMMISSIONER KREIDLER: Victor Koski. And as
19 Victor comes up, then following him we would like to have
20 Marvin Nelson.

21 And as you sit down, Victor, something I should have
22 done is -- the CEO of Premera Blue Cross, Gubby Barlow, is
23 here in the back. Gubby, if you will just raise your hand,
24 if you'd be so kind. And so that you're well represented
25 here -- letting the applicants hear what people are saying.

1 Please, Mr. Koski.

2 MR. KOSKI: Yeah. My name's Vic Koski. I'm a
3 member of UFCW 1439.

4 And our membership is currently covered by Premera for
5 our health coverage. Should they change -- one of our
6 concerns is if they change to a for-profit company, that our
7 premiums may well increase, that our services may decrease as
8 provided by our insurance company.

9 During negotiation time for our labor contract, every --
10 our employers bring forth the cost of labor or the cost of
11 medical insurance as a prime cost and who should pay that
12 cost, whether it be the employer or the employee. Eventually
13 it boils down to part of the compensation package. And our
14 hourly benefit or our hourly wage is held the same as it was
15 in the last contract with a slight increase in our insurance
16 coverage.

17 Should this -- should we go to a for-profit insurance
18 company that is trying to satisfy stockholders and try to
19 satisfy other areas, then the general good and health of the
20 citizens we may well see a decrease in our wages due to that
21 money going into the insurance plan. We may see decreased
22 services that we will have to pay out of our own pocket
23 anyway.

24 What this will do is cause us to have a lower standard
25 of living. It will lessen our beneficial impact to the rest

1 of the economy in the state. We have quite a few members.
2 Somewhere over 4,000. And these people all need insurance.

3 Another concern that I have that I have picked up by
4 reading some of the items on the website is: What if Premera
5 changes to for-profit company and then is sold to another
6 national company? Where do we stand then with the promises
7 that they're making at this time as to what they will do?
8 Will that national company carry forth and perform those same
9 agreements or not?

10 And in order to protect the consumers in the state,
11 healthcare providers from having their items decreased, the
12 hospitals that have been previously mentioned here that are
13 operating on a borderline, all these things cause an
14 increased cost of medical care for all of us. So this is not
15 a single item or a single area that is being approached by
16 one company. It can affect many companies and all of the
17 citizens of the state, whether they are currently insured by
18 this company or not.

19 I thank you for your time and the opportunity to express
20 my opinions.

21 COMMISSIONER KREIDLER: Thank you, Mr. Koski.

22 And Marvin Nelson. And as Marvin Nelson comes forward,
23 following him will be John Adkison.

24 You know, one of the instructions I didn't give -- and I
25 hope this isn't causing problems -- is that I didn't say that

1 it would be helpful if you make sure everybody states their
2 name and where they reside. I think everybody's done it
3 today, but I thought it would be something that Sue will
4 remind me that I didn't say early. So I thought I would pass
5 it along.

6 Please.

7 MR. NELSON: Thank you. I'm Marvin Nelson. I live
8 here in Yakima. And I'm representing the National
9 Association of Federal Retired Employees.

10 I was at Kennewick yesterday at a meeting where we were
11 discussing the hearing you were going to have. And of the
12 membership there and here in Yakima and Wenatchee that I've
13 talked to, probably about 35 percent of the membership is
14 insured by this Premera.

15 And we all just wanted to express, number one, why the
16 conversion was being brought forth and, number two, that we
17 are very, very happy with the service and really are seeking
18 information. Well, how would we gain from this, or what
19 would be benefit? Because again I would say we're very
20 pleased with taking it as an insurance provider and been very
21 happy with it. Thank you.

22 COMMISSIONER KREIDLER: Thank you very much. John
23 Adkison. And following him John Vornbrock, I believe. Am I
24 correct in that?

25 MR. VORNBROCK: Close enough.

1 COMMISSIONER KREIDLER: Close enough.

2 DR. ADKISON: Thank you, Commissioner Kreidler. My
3 name is John Adkison, Dr. John Adkison. I'm an orthopedic
4 surgeon in Yakima. I grew up in Yakima, and I have come home
5 to practice. I have been in practice since 1979. I speak
6 against Premera's request to convert to a for-profit entity.

7 Here in Yakima and in other rural communities in
8 Washington Premera exerts enormous influence on the insurance
9 marketplace and by extension on physicians and hospitals.
10 Premera has no incentive to negotiate with the practices as
11 the market is significantly skewed in Premera's favor.

12 Therefore, I am deeply concerned that Premera's
13 conversion to a for-profit will quickly worsen the plight of
14 rural medicine practices -- rural medicine practices, and
15 that our patients' access to needed care is already at
16 serious risk. This is a diagrammatic problem, current and
17 active in Yakima. Poor economy in Washington's rural areas
18 reduces the availability of jobs and employer-purchased
19 health insurance in Washington.

20 Our rural communities face tough prospects when
21 attempting to attract primary-care and specialty physicians.
22 It typically costs more to attract physicians to rural areas
23 than it does in urban areas. Given that challenging
24 landscape and Premera's dominance in the insurance market,
25 Premera has no incentive to adequately reimburse physicians'

1 practices.

2 Yet should a conversion to a for-profit occur, Premera
3 will be motivated to further scale back its payment rates in
4 order to make a profit. Further declines in payment rates
5 will guarantee the exit of physicians from this community.
6 We are currently losing more specialists in many areas than
7 we are able to recruit.

8 As a direct result of Premera's pressure to seek
9 profits, rural communities will see their healthcare
10 infrastructure compromised, jobs will be lost, access to care
11 will be even more impaired as primary and specialty care will
12 no longer be available locally or even in neighboring
13 regions. Emergency departments will see greater strain on
14 their capacity, and the continuity of regular access to care
15 will be compromised.

16 State supported programs such as Medicare, Healthy
17 Options, and Basic Health programs will not be supported.
18 Premera will not have any financial incentive to participate
19 in such unprofitable ventures. Without these safety-net
20 programs, the ranks the uninsured will swell.

21 I oppose Premera's conversion. The availability of
22 medical insurance and the viability of physician practices
23 will be compromised. This will lead to decreased patient
24 access to care. Thank you.

25 COMMISSIONER KREIDLER: Thank you, Doctor.

1 Vornbrock, right?

2 MR. VORNBROCK: Yes. That's correct.

3 COMMISSIONER KREIDLER: Okay. Thank you. And
4 following John Vornbrock, Kenneth Isaacs, please.

5 MR. VORNBROCK: Mr. Insurance Commissioner, ladies
6 and gentlemen, my name is John Vornbrock. I'm a senior vice
7 president and chief operating and financial officer at Yakima
8 Valley Memorial Hospital.

9 Yakima Valley Memorial Hospital is a 226-bed licensed
10 hospital located here in the City of Yakima. We're a
11 nonprofit 501(c)(3) entity which provides a broad range of
12 healthcare services to our local populations. Among the
13 services which we uniquely provide to our population include
14 obstetrical and maternal health services with about 2900
15 deliveries per year, neonatal intensive care and medical
16 pediatric services and inpatient psychiatric services.

17 We're a key provider of other inpatient, outpatient, and
18 home-based services in Yakima County, providing approximately
19 one half of all hospital services used by residents of Yakima
20 County. Our emergency department is one of the busiest in
21 the state; it had over 51,000 visits during the past fiscal
22 year, which just ended. And that provides the ultimate
23 safety -- healthcare safety net to our population.

24 Unlike King County, Yakima County does not have
25 convenient alternate hospitals for charity care, trauma care,

1 and involuntary psych care. Our provider community has to
2 independently provide all of the services that are needed by
3 our population and is forced to rely very little on referral
4 institutions. Our facility is struggling to meet the service
5 needs of our community.

6 Our percentage of gross revenue paid through Medicare
7 and Medicaid has increased to over 60 percent of our overall
8 gross revenue. During the fiscal year that just ended,
9 charity care increased from about \$1.3 million to about
10 \$2.0 million or an increase of over 50 percent in this one
11 year. Our region has been especially hit hard by recent
12 cutbacks in Medicaid coverage and payment.

13 Only with great difficulty has our facility been able to
14 stay in the black, with a net operating margin of about
15 2 percent in the past fiscal year, a level which, if it
16 doesn't show improvement, will challenge our ability to meet
17 the burgeoning needs of our population in the years to come.

18 We recently struggled with our costs in order to be able
19 to budget a net operating margin of zero during the coming
20 fiscal year. We face some incredibly difficult challenges in
21 such areas as capital generation, adequate numbers of
22 qualified manpower, and support of our physician and provider
23 community.

24 We've seen financial issues not only in our own facility
25 but also with the physicians of our community. Our area is

1 simply unable to attract and retain an adequate supply of
2 needed specialists in all areas. Due to the supply, we now
3 have less than 24/7 backup coverage in a number of key
4 specialties, including neurosurgery, plastic surgery,
5 neurology, and ear, nose, throat.

6 Unless things change, we're expecting further shortages
7 in other specialties that are currently at risk. This
8 required creative solutions and input of dollars by both
9 Yakima hospitals as well as our excellent federally qualified
10 healthcare centers in order to keep our medical community
11 from simply going off the edge.

12 The precariousness of Yakima and its healthcare
13 community cannot be overemphasized in this discussion. In
14 addition to Medicare and Medicaid, the major other commercial
15 peers in our community are Premera Blue Cross, Regence Blue
16 Shield, Group Health, and First Choice. These plans have all
17 told us of their own struggles and inability to solve the
18 problems of the Yakima hospitals and physicians.

19 Premera's our largest single provider, contributing
20 about 27 percent of our commercial insurance revenue during
21 the past fiscal year. Premera Blue Cross also serves as our
22 fiscal intermediary for Medicare.

23 The comments that follow must be seen as being generic
24 to any of the healthcare plans which might consider a
25 conversion. Although Premera's the largest single payer, we

1 are singling them out in this discussion only because their
2 proposal is the one on the table at the current time. We're
3 deeply concerned about the possibility that a for-profit
4 conversion could seriously impact our original relationship
5 with Premera.

6 Questions which go through our minds include: Would
7 Premera hold down rates in order to return a profit to its
8 shareholders? We think the answer to that question could be
9 yes. If our rate increases are reduced or held below our
10 cost increases, then we're going to suffer.

11 Would the conversion provide Premera with further market
12 clout, which could diminish the role of other players and
13 lead to its further dominance of the market? Would a
14 for-profit Premera which merged with other healthcare plans,
15 i.e., WellPoint or Anthem, provide Premera with even more
16 market clout? This is not an idle consideration given what
17 has happened to other Blues plans which have converted.

18 Would decisions involving Yakima and other portions of
19 Central Washington become even more removed from
20 consideration of our unique and fragile characteristics?
21 There is no question in our minds that with a larger
22 multistate corporation, if that would occur, that Yakima
23 would be just a dot on the map that would get very little
24 attention.

25 Is healthcare coverage in Yakima considered to be a

1 profitable line of business by Premera, and would their
2 desire to provide coverage in Yakima be threatened as a
3 result of the conversion? Those are all questions we have.

4 The healthcare system within Yakima and Central
5 Washington is currently near a crisis stage due to poor
6 reimbursement, malpractice crisis, which I know the Insurance
7 Commissioner is very familiar with, and other factors. We've
8 already seen one major hospital system, the Sisters of
9 Providence, feel that it could no longer be able to provide
10 hospital services in Yakima, selling its hospital after 112
11 years of service to the Yakima community. We know that other
12 nonprofit hospitals in our region are not in superb shape
13 financially.

14 We hear from our community's physicians that they cannot
15 survive on the amount of Medicare and Medicaid that we have
16 in this community without receiving somewhat more from
17 commercial payers. More than one payer has confided to us
18 uncertainty that they'll be able to continue to serve Yakima.
19 The Yakima healthcare system is currently in a delicate
20 balance, and little provocation from other factors -- from
21 factors such as malpractice insurance crisis or disruption in
22 payment systems could have grave consequences.

23 From the perspective of our hospital, we have a great
24 deal of difficulty in seeing how the proposed conversion is
25 going to successfully improve the availability, access, and

1 quality of services to the population that we serve. In
2 fact, we see a great potential that healthcare services could
3 be harmed by the conversion. We certainly don't see a
4 neutral impact; although, we would welcome seeing evidence to
5 the contrary.

6 In fairness, we don't claim to perfectly understand all
7 the potential impacts of the proposed conversion. But if
8 sufficient evidence is not forthcoming and our concerns
9 cannot be properly addressed to the satisfaction of the
10 Insurance Commissioner, then we would respectfully ask that
11 Commissioner Kreidler deny the proposed Medicare
12 conversion -- or excuse me -- Premera conversion.

13 Thank you very much for this opportunity.

14 COMMISSIONER KREIDLER: Thank you very much.

15 Ken. And following Dr. Isaacs, Hamilton Licht. Is that
16 close enough?

17 DR. LICHT: Yeah.

18 COMMISSIONER KREIDLER: Good. Please.

19 DR. ISAACS: Commission Kreidler, my name is
20 Dr. Kenneth Isaacs. I am a neurologist from Walla Walla,
21 having lived and practiced there for 22 years. I see
22 patients with neurologic disorders from much of southeastern
23 Washington with its many rural communities.

24 I am also the president elect of the Washington State
25 Medical Association. As you are aware, the Washington State

1 Medical Association is an intervenor and is in opposition to
2 the Premera proposed conversion to a for-profit entity.

3 If I were speaking tonight from the standpoint of the
4 WSMA, I would expand upon our efforts, analyzing our serious
5 concerns regarding this proposed conversion. However, there
6 is an ongoing process separate from these meetings
7 communicating WSMA's opposition to conversion. Instead,
8 tonight I speak as an individual medical practitioner caring
9 for a broad spectrum of patients from our largely rural
10 region, and I speak against Premera's requests to convert to
11 a for-profit entity.

12 Commissioner Kreidler, Premera was created to serve the
13 people of this state through providing healthcare insurance
14 needs. If this currently not-for-profit entity has value to
15 the patients in providing this service, certainly all so
16 served should have a deep commitment to Premera's financial
17 health. If Premera prudent business needs requires greater
18 funds to truly serve the people, there are nevertheless
19 better solutions than to sell or convert the company and to
20 forever become enslaved to the service of Wall Street
21 investors.

22 I and fellow rural practitioners are very concerned
23 about the proposed conversion. As a for-profit entity, the
24 company's focus and responsibility changes from serving
25 patients of our state to diverting those healthcare dollars

1 extracted from our communities and then sending those dollars
2 to the profit-hungry investors.

3 How could it be that patients could pay the same amount
4 for the same care and yet millions, ten of millions, or
5 hundreds of millions of dollars will somehow be extracted and
6 sent to Wall Street? I don't believe that this is possible.
7 A for-profit Premera cannot provide millions in debt payments
8 or dividends to happy investors and keep premiums the same
9 and keep reimbursements to providers the same.

10 Consider their first approach towards profits. If they
11 raise premiums to pay off shareholders, the company's new
12 legal responsibility, and keep reimbursements to physicians
13 and hospitals the same, this will drive patients the people
14 of our communities out of affordable healthcare. The number
15 of patients on state sponsored programs will increase. The
16 number of uninsured will increase. Access to care will
17 suffer.

18 Thus, if a new profits-first company keeps payments
19 stable to healthcare providers, patients will suffer.
20 Conversion to a profits-first company will have undesirable
21 consequences that your office cannot allow to occur, such
22 as -- as such a conversion would reduce access to and quality
23 of healthcare.

24 Consider a second possible approach. If they keep
25 premiums stable but reduce reimbursement to healthcare

1 providers, hospitals, physicians, and clinics, they will
2 impoverish the already suffering healthcare communities here,
3 as you've already so poignantly heard the concerns tonight.
4 Providers will be compromised in acquisition of needed new
5 equipment and improvements while those savings are sent to
6 Wall Street and the hungry investors. Capacity to recruit
7 new and excellent physicians will be compromised, a problem
8 already particularly severe in all of our rural communities
9 in Eastern Washington.

10 Premera has already a recalcitrant attitude to working
11 with physicians regarding issues of reimbursement, with its,
12 quote, "take it or leave it," unquote, technique, which we
13 each know. One can only imagine the behavior as a, quote,
14 "profits-first," unquote, company. Thus, again, if a new
15 profits-first company keeps premiums stable and makes its
16 profit by reducing reimbursements to providers, patients of
17 our Washington communities will suffer, though distant
18 investors may rejoice.

19 Conversion to a for-profit company will, again, have
20 undesirable consequences that your office cannot allow to
21 occur as such a conversion would reduce access to, again, and
22 quality of healthcare. As a new profits-first company
23 extracts money from Washington state communities, there will
24 be many consequences that will burden our rural regions,
25 including reduced access to healthcare, reduced ability of

1 communities to attract and retain the best healthcare
2 practitioners, reduced capacity for hospitals and clinics to
3 purchase needed equipment to modernize facilities, reduced
4 quality of care.

5 In communities where healthcare is an economic
6 foundation, entire communities will suffer to serve
7 shareholders, Commissioner Kreidler, as these precious
8 healthcare dollars are used instead for gold-plated bathtubs
9 for investors and executives.

10 I oppose Premera's proposed conversion -- I oppose
11 Premera's proposed conversion to a profits-first company. If
12 your office allows Premera to abandon its mission of service
13 first to the citizens of our state and send millions of our
14 dollars to wealthy investors, such actions will have serious
15 and devastating repercussions to access to care, the
16 viability of physician practices and hospitals, and even the
17 economies of rural Washington.

18 I, therefore, strongly urge you to oppose the proposed
19 conversion. Thank you.

20 COMMISSIONER KREIDLER: Thank you, Doctor. And
21 following Hamilton Licht, Sean Koos.

22 DR. LICHT: Commissioner Kreidler, my name is
23 Hamilton Licht. I'm a private practice nephrologist in
24 Yakima. Thank you for inviting us to speak tonight.

25 As stated earlier, Premera is a major force in the

1 medical insurance industry in Eastern Washington. My belief
2 is that conversion will lead to a change in focus, as stated,
3 well, very graphicly by my predecessor.

4 Currently Premera exists solely for the public good, and
5 as such, they serve the public. With conversion, Premera
6 will have new mouths feed, its stockholders. They must be
7 fed, and this will occur by taxing the insured and the
8 providers.

9 Healthcare insurance rates are rising rapidly. The
10 insured certainly cannot afford the increases needed to feed
11 the stockholders. As evidence merely -- we merely need to
12 look at the number of companies in the State of Washington
13 that have given up healthcare as a benefit to their
14 employees.

15 The providers cannot afford a decrease in payments
16 either. Private practice medicine in the Yakima Valley is in
17 jeopardy for several reasons. First, the high percentage of
18 Medicare, Medicaid patients. There have been sharp increases
19 of malpractice insurance, running from 40 to 70 percent in
20 two years. We also have increased unfunded mandates from
21 Congress, such as HIPAA. And of course, inadequate
22 cost-of-living increases from Medicaid and Medicare.

23 These effects are most sorely felt in the primary-care
24 arena. As evidence for this is that a total of 18 to 20
25 primary care providers in the City of Yakima representing

1 over half of the primary care providers are being supported
2 by one of the Yakima hospitals. Without this support, these
3 practices would be bankrupt.

4 This -- our predecessors have talked about how tough it
5 is to practice medicine, how tough it is for hospitals to
6 stay afloat in these times. I don't think they've emphasized
7 it enough. The circumstances are dire. We see no relief
8 coming from Medicaid. We see no relief coming from Medicare.
9 One of the few sources of income we have is insurance income,
10 and it's basically underwriting all of our practices. We
11 cannot afford the shift in money flow that will occur
12 following this conversion, and I ask you to give strong
13 consideration to denying it. Thank you.

14 COMMISSIONER KREIDLER: Thank you, Doctor.

15 Shaun, how was Blewett Pass?

16 MR. KOOS: It was slow. 35 miles per hour.

17 COMMISSIONER KREIDLER: I'll bet.

18 MR. KOOS: Thank you, Commissioner Kreidler. My
19 name is Shaun Koos. I'm from Leavenworth, Washington. I'm
20 the administrator of the Wenatchee Valley Medical Center,
21 which is a medical organization which is based in seven
22 Eastern Washington communities. We have 1400 employees and
23 care for about 130,000 patients annually.

24 I've personally had 21 years experience with Premera and
25 its predecessors, and our organization has had much longer

1 experience. And it is difficult to peer into the future and
2 pierce the veil of what future survival strategies may be for
3 health plans and what future behaviors may be. But perhaps
4 we can extrapolate a bit from past behaviors and experience.

5 And among the health plans with which we contract,
6 Premera has been somewhat unusual. They currently have
7 significant market share in our region and represent about
8 65 percent of the commercial coverage in north Central
9 Washington. And there's certainly not -- with that market
10 share they're certainly not pushovers when it comes to
11 negotiating contracts. But post contract signing, I would
12 characterize our experience with Premera as one in which they
13 deliver on the agreements, in which they address problems,
14 and in which they, unlike -- or somewhat unusually do try to
15 invest in the delivery network and their ongoing
16 relationship.

17 Our organization has undertaken several disease
18 management collaborations with Premera in recent years.
19 They've been successful and, in fact, one is going to be
20 presented to the Institute of Medicine in January. I would
21 characterize Premera's involvement in those as forward
22 thinking and as truly committed to quality measurement and
23 improvement. And they're one of the rare health plans in our
24 experience that actually actively try and engage
25 practitioners face-to-face in a rural setting.

1 I would encourage the Commissioner's Office to give some
2 credence to Premera's contention that it will stay statewide
3 and committed to Eastern Washington. I think it's the
4 distinctive niche that they have among health plans in the
5 state currently, and that's probably some of their value in
6 the marketplace.

7 Even as a nonprofit, Premera has appeared to make
8 rational business-like cost-benefit calculations, and in our
9 region they have opted out of the Healthy Options and the
10 public employee benefit programs in recent years. And I
11 guess in somewhat accord with the 13th amendment and its
12 prohibition against involuntary servitude, I think they do
13 make an assessment of whether a program will work for them
14 currently and make business-like decisions.

15 In recent -- well, a number of years ago our local
16 bureau, Chelan County Medical, was acquired by Premera or
17 Blue Cross Blue -- Blue Cross of Washington at that time, and
18 a foundation was established. It's known as Community
19 Foundation of North Central Washington.

20 Recently the community of Wenatchee honored their
21 retiring executive director, who had served since its
22 inception, for all the good work that that community
23 foundation had done over the years and what a catalyst it had
24 been for philanthropy in our region. And again, difficult to
25 know the future, but I think some credence should be given to

1 the salutary effect that could come out of a foundation as a
2 result.

3 Those are my comments, and I thank you very much.

4 COMMISSIONER KREIDLER: Thank you, Shaun. That
5 concludes the list of the individuals who had signed up
6 indicating their desire to comment, testify this evening. Is
7 there anybody that didn't sign up, have notified either
8 Stephanie or Scott, that would like to? Did you have a
9 chance to sign up with them or not?

10 MR. DUREN: I signed in. I don't know that --

11 COMMISSIONER KREIDLER: What's your name?

12 MR. DUREN: Larry Duren.

13 COMMISSIONER KREIDLER: Come on up, Larry. Did you
14 take the oath when I --

15 MR. DUREN: Yeah.

16 COMMISSIONER KREIDLER: Great. Please have a seat.

17 MR. DUREN: My name is Larry Duren. I am a
18 licensed life and disability agent. I have been for 16 and a
19 half years, over 16 years. I started working with the Blues
20 up in Wenatchee at Chelan County Medical Service Corporation,
21 so I had a history with the Blues. I worked for Premera
22 after that, and I've worked more recently with Regence Blue
23 Shield. So I've been with the Blues for over 20 years.

24 I am on the agency side now. I work for an employee
25 benefits consulting firm here in Yakima, and I've seen a lot

1 of changes. I'm here testifying on behalf of myself as an
2 agent.

3 I'm very concerned about what the proposal is here.
4 I've been following along on the website. Very good
5 information that you put out there. I'm also very supportive
6 of Premera as a healthcare service contractor in this state,
7 but I am very concerned, primarily about the competition in
8 Eastern Washington. I am -- my market is Eastern Washington.
9 My clients are in Eastern Washington, and that's where I do
10 my business.

11 This could have a significant impact to my clients in
12 regards to the competitive nature of companies doing business
13 in Eastern Washington. Premera has a huge presence in
14 Eastern Washington, primarily in the 14 counties north and
15 east of here. I would exclude Yakima, Klickitat, Walla
16 Walla, and Asotin and Garfield, which are assigned to Blue
17 Shield of Idaho. The rest of the counties in Eastern
18 Washington are a very strong presence to Premera, and that
19 primarily comes from the fact that MSC, Medical Service
20 Corporation of Eastern Washington, was domiciled in Spokane
21 and affiliated with Premera Blue Cross of Washington and
22 Alaska at the time a few years back.

23 In these 14 counties there is another carrier that
24 markets products in those 14 counties, and they are one of
25 the other primary carriers in the State of Washington, and

1 that's Regence Blue Shield. They market in those counties,
2 and they used to market in those counties under the name of
3 Regence Northwest Health. And the hand was forced, and the
4 name was changed to Asuris Northwest Health.

5 And from my perspective that's just, without having the
6 market share and the, you know, the -- they're still a
7 not-for-profit. Premera still dominates this area and has a
8 huge presence. And even though there's a primary competitor
9 in there, most people are not aware that they have that
10 option that are in those 14 counties.

11 When I talk to people in those 14 counties, many of them
12 have not heard of the Asuris product or the Regence products
13 that are out there. And they've been out there for five
14 years now, so obviously Premera through MSC has a huge
15 presence and maintains that huge presence. So this would
16 just solidify that.

17 I'm not saying I'm for or against, necessarily, the
18 proposal. But I am very, very concerned what could come out
19 of it and that it could reduce the availability of
20 competition, especially here in Eastern Washington. The
21 concern and the lack of understanding or awareness of the
22 public, the consumer out there, whether it's real or
23 perceived, and especially if it is perceived, it is real in
24 their minds, and it's a very difficult thing to overcome.

25 So again, I'm very concerned about the competition and

1 what this could mean to that, especially here in these 14
2 counties in Eastern Washington. Thanks very much for the
3 time.

4 COMMISSIONER KREIDLER: Thank you, Larry.

5 Anyone else? Ma'am?

6 MS. BOWLIN: I would like to make a comment. I
7 didn't raise my hand to be sworn in, but I'm a subscriber to
8 Blue Cross.

9 COMMISSIONER KREIDLER: Did you sign in?

10 MS. BOWLIN: No. Yes, I did, but I didn't sign up
11 to speak.

12 COMMISSIONER KREIDLER: What's your name?

13 MS. BOWLIN: Leona Bowlin.

14 COMMISSIONER KREIDLER: Leona Bowlin, right?

15 MS. BOWLIN: Bowling alley without the G.

16 COMMISSIONER KREIDLER: There you go. Please come
17 on up and go ahead and have a seat, please. I would ask you
18 that you raise your right-hand.

19
20 LEONA BOWLIN, having been first duly sworn by
 the Notary, deposed and testified
21 as follows:

22
23 COMMISSIONER KREIDLER: Thank you.

24 MS. BOWLIN: My name is Leona Bowlin. I'm a
25 subscriber to Premera Blue Cross.

1 I've been listening to the doctors talk tonight, and
2 I've had experience with some of the doctors this year. We
3 seem to be having a lot of doctors leave town. In fact today
4 I got a call from my doctor, and this is the second time that
5 my appointment has been cancelled because they're so busy.
6 Now, that's pretty bad. If I was ready bad off and needed to
7 see him, I don't think I could get in for a month at the
8 least.

9 Now, something's going on. Something's wrong. I see a
10 lot of doctors retiring. I see doctors leaving. And I'm
11 really worried as a subscriber to what it's going to cost me
12 to continue with you if you go to a profit organization. And
13 am I going to be able to afford your insurance, or am I going
14 to have to let it go and just go to the emergency room or go
15 to the Farm Workers Clinic? What am I going to do?

16 I have a cousin out there. She gets \$600 a month social
17 security. How is she going to afford to have any premiums
18 under anything? What's she going to do? She's in her 80s.
19 What do you do? Just die?

20 And this is true. She didn't want to go to the doctor.
21 She had a very bad infection on her leg. And finally after
22 six months we talked her into that she had needed to go to a
23 doctor. And she went to Farm Workers Clinic, and they did a
24 very nice job. She had a hole in her leg clear to her bone.

25 Now, see, they don't want to go. They can't pay

1 premiums. They don't have the money to go to a doctor. What
2 are people going to do? How many more are going to be
3 without insurance if they go to a profit organization and
4 raise their rates?

5 It's a very big concern of mine, and I want to express
6 and I also wanted to say that the doctors are right on.
7 They're leaving town. We don't have doctors here anymore.
8 To get in to see one you got to wait at least a month. Or
9 then you get your appointment cancelled and for another
10 month. Pretty bad. Thank you.

11 COMMISSIONER KREIDLER: Thank you, Leona.

12 Well, let me thank everyone who came here this evening
13 to testify at this hearing. This is the second of four that
14 we're holding around the state of Washington. And the formal
15 hearing, as I said, will be in a month scheduled for --
16 beginning January 15th in Tacoma.

17 I very much appreciate the comments and testimony that
18 was given. It will be clearly a very big part of the overall
19 consideration for decisions that are made. And your coming
20 forward and offering your input is very much appreciated.

21 With that, the meeting is adjourned.

22 (Proceedings concluded at 7:27 P.M.)
23
24
25

C E R T I F I C A T E

I, SUE E. GARCIA, a duly authorized Court Reporter and
Notary Public in and for the State of Washington, residing at
Tacoma, do hereby certify:

That the foregoing proceedings were taken before me on
the 4th of December, 2003, and thereafter transcribed by me by
means of computer-aided transcription, that the transcript is a
full, true, and complete transcript of said proceedings;

That I am not a relative, employee, attorney, or
counsel of any party to this action or relative or employee of
any such attorney or counsel, and I am not financially
interested in the said action or the outcome thereof;

IN WITNESS HEREOF, I have hereunto set my hand and
affixed my official seal this December 9, 2003.

SUE E. GARCIA, CCR, RPR
WA Lic. No. 2781